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SUBJECT: NEW DELHI WEEKLY ECON OFFICE HIGHLIGHTS FOR THE WEEK OF
FEBRUARY 23 TO FEBRUARY 27, 2009

¶1. (U) Below is a compilation of economic highlights from Embassy New Delhi for the week of February 23-27, 2009, including the following:

-- UPA Government's Last Relief Package to Exporters
-- UPA Sneaks in Another Last Minute Vote Sweetener
-- Government Attempts Clarification of FDI Policy
-- Inflation Continues to Drop
-- Some Signs of Industrial Revival
-- Rupee Falls to Record Low
-- Parliament Passes Legislation for Protecting IPR of "Special Products"
-- India Reacts to US Move to Withdraw Tax Breaks
-- Delhi Airport Gets New Terminal 1D
-- The Green Friendly Delhi Metro
-- Tata Motors Set to Launch Nano
-- Up to 20,000 Indians Return After Losing Jobs Abroad
-- Ranbaxy and Daiichi Hope to Resolve Issues from FDA Finding
-- Thousands of Rooms Still Needed for 2010 Commonwealth Games
-- Indian Government Entities Good Customers for CAT

UPA Government's Last Relief
Package to Exporters

¶2. (U) Commerce Minister Kamal Nath on February 26 announced the interim Foreign Trade Policy, offering a relief package to exporters in the face of the current global slowdown. The package included some of the usual suspects, such as fiscal incentives and trade facilitation through the simplification of procedures. Focusing on employment intensive sectors, such as leather, textile, gems and jewelry, and food products, the Minister announced a special fiscal package worth a modest Rs. 3.25 billion ($65 million) including service tax refunds, extension of duty drawbacks to May 2009, extension of income tax exemption for 100 percent Export Oriented Units for another one year, and a 5-percent duty credit for the export of handmade carpets under the Focus Product Scheme, compared with 3.5 percent given earlier. Other procedural simplifications include faster clearances of export benefits, fast settlement of duty credits and extension of such duty credits for import of restricted items, such as hot-rolled coil after payment of duty. Under the Export Promotion Capital Goods (EPCG) scheme, the export

obligation for exporters facing a decline in the export of their products by more than 5 percent, has been reduced proportionately. All these measures will be implemented from April 1, 2009.

¶3. (U) While recapping export performance for the last few years, Commerce Minister Kamal Nath stated that exports were $162 billion in 2007-08 and will reach $175 billion for the fiscal year ending March 31, 2009. In the face of decreased external demand from the global slowdown, the Indian government has decreased the current FY export target to $175 billion from the earlier target of $200 billion. The GOI is now targeting $200 billion in exports for the next fiscal year, 2009-2010. Generally, India releases its Foreign Trade Policy for five years in April with annual supplements; however, this time it will be announced by the new government after national elections in May 2009. Despite the current slowdown, Nath reiterated the GOI still sees India's share of world trade reaching 5 percent by 2020, from under 2 percent at present. In announcing the package, Minister Nath stated, "I am confident that with the stimulus packages announced by our government as well as the packages announced by developed countries, there would be a pick-up in demand and exports will again begin to grow."

Government Attempts Clarification of FDI Policy

¶4. (SBU) The Commerce Ministry's Department of Industrial Policy and Promotion issued what it called a policy clarification through a new "Press Note", seeking to address the speculation that Press Note 2, issued several weeks back, allowed "back door" foreign investment in sectors currently closed to FDI, especially multi-brand retail. The new press note, Press Note 4, issued on February 26, describes

the guiding principle of Press Note 2 to be "what can be done directly can be done indirectly under same norms." That statement, combined with the further language that foreign companies must comply with "relevant sectoral conditions on entry route, conditionalities and caps with regard to the sectors in which such companies are operating" suggests the government's intent is to keep previously restricted sectors offlimits. However, given the initial confusion and still turgid language of the new press note, Post will continue to report on the interpretations and implications of the press note, as they unfold. The press note can be found at http://siadipp.nic.in/policy/changes/pn4_2009 .pdf.

UPA Sneaks in Another Last Minute Vote Sweetener

¶5. (SBU) The Cabinet Committee for Economic Affairs (CCEA) announced yesterday that it had approved a 6% increase in the cost of living allowance given to central government employees and pensioners. Expected to reach over eight million employees and retirees, the approval will cost roughly $1.2 billion over the next 14 months.

Inflation Continues to Drop

¶6. (U) In line with expectations, wholesale price inflation took another dip, with year on year inflation for the week ended February 14 dropping to 3.36%, last seen in December 2007. Economists attributed the recent decline to the domino effect of the earlier fuel price cut on manufactured products. In addition, inflation for food articles, which had been near a 10-year high, dropped along with lower prices for fuel. The newly announced reduction in the excise duty from 10% to 8% is expected to push inflation down further in the weeks to come. The already high expectations for interest rate reductions were bolstered by the further fall in inflation.

Some Signs of Industrial Revival

¶7. (U) After sharp contractions in production in October and November, some industrial sectors seem to be rebounding in December and January. Media reports noted that cement and steel growth had

returned to positive territory in December and January compared to the two months before. Likewise, passenger vehicle sales grew 32% in January over December, while sales of commercial vehicle climbed 23% in the same time period. Both of these may have been spurred by the government's reduction in the excise duty from 14% to 10% in early December (and may receive more of a boost from the further reduction in the excise duty to 8% announced in Parliament on February 24). In addition to these larger industrial sectors, nondurable consumer goods have maintained buoyant growth. Also called fast-moving consumer goods (FMCG), this sector registered record growth of 26% in the fourth quarter of 2008 year on year, while food and beverages, reflecting the hospitality sector, experienced a record 28% growth during the same period year on year.

Rupee Falls to Record Low

¶8. (U) A combination of end-month and other factors pushed the rupee down to a record low of 50.46 on February 26. High dollar demand by importers to clear monthly invoices, joined with the impact of the Standard & Poor sovereign outlook downgrade, new capital outflows, and some arbitrage in outside currency future markets, led to the decline. Some economists now expect the rupee to fall to 51 or 52 to the dollar by the end of 2009. In contrast, Citi's India economist, Rohini Malkini, projects a rangebound value of 48.5 to the dollar, plus or minus two rupees. She notes that oil import costs should decline in the wake of cheaper global prices and some planned refinery expansions due to come online in 2009.

Parliament Passes Legislation for Protecting IPR of "Special Products"

¶9. (U) The Indian Parliament on February 16, 2009 passed an amendment Bill ('Agricultural and Processed Food Products Export Development Authority (APEDA) (Amendment) Bill 2008'), which inter alia, provides intellectual property rights (IPR) protection to agricultural and processed food products included in the proposed Second Schedule to the APEDA Act. Basmati rice is the first such product. The legislation empowers APEDA, which operates under the Commerce Ministry's umbrella, to undertake measures for IPR registration and protection of special products both inside and outside of India. Trade sources reportedly said that drafting a common definition of basmati for the purposes of a geographic indication (GI) was complex as states like Madhya Pradesh, Rajasthan, and Karnataka have also started growing the variety. Since the concept of a GI extends to a delimited geographic area, which for basmati has been clearly defined as the Himalayan foothills, the government wanted to provide protection to newly growing basmati states for their basmati crop. The new law will also strengthen India's GI claim over basmati rice jointly with Pakistan which also grows the rice on its side of the Himalayan foothills. India and Pakistan were exploring the possibility of a joint GI and had made considerable progress in this regard when the Mumbai terror attacks of November 26 put discussions on hold.

India Reacts to US Move to Withdraw Tax Breaks

¶10. (U) Reacting to President Obama's statement on ending tax breaks for companies that outsource, the Federation of Indian Chambers of Commerce and Industry (FICCI - a prominent trade and industry chamber in India) expressed concern, saying that the protectionist measures could accelerate the prevailing economic slowdown. While FICCI could not yet ascertain the likely impact of the new policy, it cited as evidence for the mutual benefit of information technology-enabled services (ITES) a study by the US Chamber of Commerce that reportedly shows that American companies capture the majority of economic gains from outsourcing.

¶11. (U) Commerce Minister Kamal Nath in a statement to the press indicated that US actions against outsourcing may be contested in the World Trade Organization (WTO) if the move is not

WTO-compatible. "We have to ensure what [the US] is doing is WTO compatible when we are talking about trade, movement of goods, movement of people and movement of services," Nath emphasized. He also said the GOI would take up the issue of outsourcing with the US administration.

Delhi Airport Gets New Terminal 1D

¶12. (U) On February 26, Civil Aviation Minister Praful Patel, Delhi Chief Minister Sheila Dikshit Delhi, and senior airport officials inaugurated the new departure terminal 1D at Indira Gandhi International (IGI) Airport in New Delhi. The new terminal will commence operations at the end of March and is expected to eventually handle all outbound domestic traffic. The new terminal was developed by Delhi International Airport Limited (DIAL), a GMR Group-led consortium, with an investment of approximately USD 5 billion. It is located between the existing domestic arrivals and departure terminal (1A), covers an area of 35,000 square meters, and is equipped with four-level in-line baggage handling system and 72 check-in counters across eight rows.

¶13. (U) Airport officials have pointed out that security clearance should be smoother at the new terminal with 16 channels equipped with metal detectors and baggage scanners. The new terminal will also offer a variety of restaurants and food stalls, lounges, and a wi-fi internet zone. DIAL Chairman and Group Chairman of the GMR Group G.M. Rao said the new terminal is expected to become fully operational by early April, though some operations will gradually be

shifted from terminal 1B to 1D. From April onwards, all airlines will operate from terminal 1D for at least a year until the proposed integrated terminal (T3) comes online sometime in 2010. Also, in an effort to help ease traffic leading to the new terminal, a flyover is under construction.

The Green Friendly Delhi Metro

¶14. (U) The Delhi Metro Rail Corporation (DMRC) has become the first railway project anywhere in the world to be registered for obtaining carbon credits from the United Nations (UN). The DMRC has avoided emission of over 90,000 tons of carbon dioxide since the beginning of 2007, according to a Germany-based validation company TUVNORD in their annual audit of carbon savings which was conducted on behalf of the UN Framework Convention on Climate Change (UNFCCC). With the adoption of regenerative braking systems on Delhi metro trains, this has helped reduce overall power consumption by 112,500 megawatt hours. In 2008, the Delhi metro registered a savings of 39,000 tons of carbon emissions and this figure is estimated to increase to 100,000 tons per year once the phase two expansion of the metro project is complete. The DMRC can claim approximately 400,000 carbon credits for a ten year crediting period starting from 2007, when the metro project was first registered by UNFCCC.

¶15. (U) According to DMRC officials, with the sale of these carbon credits, the money will be applied towards offsetting additional investment and operation costs for the metro. Other funds will also be invested towards research and development activities to reduce emission of green house gases and training for train operators for more optimum regeneration.

Tata Motors Set to Launch Nano

¶16. (U) The maker of the Nano, which will be the world's cheapest car with a sticker price of $2,000, has announced that the vehicle will go on display on March 23 and be available for sale mid-April. As the new Nano plant in Sanand, Gujarat is not expected to be finished until the end of 2009, Tata Motors plans to manufacture a limited number of the first Nanos at its plants located in Pune near Mumbai and Pantnagar in Uttarakhand. According to news sources, the company is planning a "grand launch" in hopes of rebuilding the hype that originally surrounded the Nano, which has since been dampened by the controversy surrounding the land dispute over Tata Motor's

originally planned production site in West Bengal. The car will be marketed as the "people's car" and be driven and showcased at temples and shrines around the country prior to the launch.

¶17. (U) The Nano enters the market at a time when total automobile sales in India have experienced significant decreases. Auto-makers are hopeful that tax cuts, economic stimulus measures, and interest rate cuts will provide for a turnaround in sales. The success of the new car will be essential to Tata Motors, which announced a $54 million quarterly loss on January 30 and is facing a debt of $2.3 billion used to finance the company's purchase of Jaguar and Land Rover last year. EconOff spoke with Jalaj Gupta, Regional Manager of Tata Motors, who was hopeful that the Nano launch would "kickstart the turnaround story" for the auto sector. When asked about the ability of Tata to supply the anticipated demand, Gupta admitted he expects the wait for a new Nano may be as long as one year. However, the company is concerned that the already 15-month lapse since the car's unveiling is already too long. Tata would rather launch and not be able to supply demand immediately than risk losing enthusiasm for the car or consumers to competitors. The Nano, Gupta noted, will draw heavier traffic to showrooms and attract customers to more expensive cars as well, which is where Tata anticipates it will profit during the initial months of the launch.

Up to 20,000 Indians Return
After Losing Jobs Abroad

¶18. (U) Overseas Indian Affairs Minister Vyalar Ravi announced that between 16,000 and 20,000 Indians have returned home after losing their jobs overseas, particularly in the Gulf area, due to the economic slowdown. While the impact of the workers' return is still unknown, the state of Kerala is expected to be particularly hit: over half of the five million Indians working in the Gulf are from the southern state. Chacko T. Varghese, general secretary for the Kerala Manpower Exporters Association, a group that connects recruiting agencies to Gulf-based employers, calculates that 500,000 workers will return to the state in the next several months. The Government of India estimated there were 25 million Indians living abroad in 2006, one of the largest diasporas in the world.

Ranbaxy and Daiichi Hope to Resolve
Issues from FDA Finding

¶19. (U) Indian generic drug maker Ranbaxy, majority-owned by Japan-based Daiichi Sankyo, formed a team to resolve the issues highlighted by the FDA in its decision this week to invoke the Application Integrity Policy (AIP) to ban previously approved pharmaceuticals produced at Ranbaxy's Paonta Sahib plant. Daiichi Sankyo, which owns 64 percent of Ranbaxy, underlined on February 26 that it "takes the issue very seriously, and both Daiichi and Ranbaxy have already formed a team to solve this issQ" Separately, Ranbaxy stated that it would work to protect against revenue impacts, emphasizing that "[n]o effort or action will be spared to timely protect key Abbreviated New Drug Applications (ANDAs) from Paonta Sahib, which include some First to File applications." (Comment: Ranbaxy/Daiichi's initial response this week to the FDA invoking the AIP reflects a welcome and mature problem-solving attitude on the part of the drug companies. This likely reflects Daiichi's now controlling stake in Ranbaxy and majority representation on the board of directors, after the completion of a tender offer in November 2008. End comment.)

Thousands of Rooms Still Needed for
2010 Commonwealth Games

¶20. (U) Earlier this week, a Parliamentary Standing Committee reported Delhi is far from ready for the Commonwealth Games, and a primary concern is the serious shortage of hotel rooms in the city. The committee estimated that 30,000 rooms will be require, against the existing 10,500 rooms in the National Capital Region. According to a survey conducted by the Delhi Police and the Pusa Institute of

Hotel Management, only 1,250 hotels (licensed and unlicensed) currently exist. This number includes starred and no star hotels and guesthouses, 715 of which are licensed, 215 unauthorized, and 320 in the process of obtaining licenses. The Parliamentary Standing Committee also reported, of the 39 hotel sites auctioned by the Delhi Development Authority since January 2006, work is only going on at 19 sites. The Committee further stated if work continued at the current rate, Delhi will find itself thousands of rooms short of the 30,000 needed.

Indian Government Good Customers for Caterpillar
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¶21. (SBU) Demand for mining equipment from Indian government-owned entities like Coal India Limited, National Aluminum Company, and Hindustan Copper have proved a boon for U.S.-owned heavy-equipment-maker Caterpillar India (CAT) for the past two (generally difficult) quarters. A CAT executive told Consulate General Chennai that these companies turned to CAT as GOI-owned Bharath Earth Movers (BEM) Limited proved unable to meet the needs of the Indian mining industry. Not only was the quality of BEM products not up to snuff, he said, but BEM's product line also fails to included the type of products -- especiQy large (100+-ton) vehicles -- needed by miners.

¶22. (SBU) The CAT executive also told us that India's credit squeeze was hurting privately owned mines' ability to buy CAT

products. He said that these companies favored smaller equipment (backhoes and 35-ton trucks, for example), but were having to cut back on orders because of their inability to obtain credit. He noted that GOI policies prohibit CAT's finance arm from operating in India, preventing the company from using its own financing capacity to spur local demand. He also noted that drops in demand for CAT's large (300-ton) trucks in Indonesia and Malaysia are causing the company to decelerate its plans to expand its Chennai facility.

¶23. (U) Visit New Delhi's Classified Website: http://www.state.sgov/p/sa/newdelhi.

WHITE